Service Date: January 29, 1990

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application of the MONTANA POWER COMPANY's Unreflected Gas Cost Account Balance as of August 31, 1989, its Gas Tracking Proposal for the Period September 1, 1989 to August 31, 1990, and IMR Differential Recovery.	UTILITY DIVISION DOCKET NOS. 89.12.53 and 89.12.54 INTERIM ORDER NO. 5454

FINDINGS OF FACT

On December 18, 1989, the Montana Power Company (MPC) filed its annual gas tracking application, which was denominated Docket No. 89.12.53. The filing seeks approval of deferred gas costs, as well as a gas cost for purposes of computing the base cost of gas for the ensuing period. In addition to the annual tracker, MPC filed testimony and exhibits in Docket No. 89.12.54. It seeks to recover balances which have accrued because of the difference between sales made at the Interruptible Market Retention (IRM) rate and interruptible industrial gas rate.

The rate and revenue impacts of the filings are as follows:

The Montana Power Company
Natural Gas Utility
Revenue Impact by Rate Class at the Tracking Market

	Firm	Interruptible Industrial	Utility	Total
Gas Cost Decrease	(40,594)	(8,203)	(8,832)	(57,629)
Adj. Unreflected Gas Cost Balance (8/31/89)	(365,342)	(86,129)	(92,738)	(544,209)
Rev. Req. Adj. Assoc. with Continuing Amort. of: A&S and Energy Oils; Bond-Folgelson; & Sev. Tx. & Working Int.	(121,781)	(28,710)	(30,913)	(181,404)
A&S & Energy Oils Basic Unit Amort. Change	(40,594)	(8,203)	(8,832)	(57,629)
Sev. Tx. & Working Int. Basic Unit Amort. Change	(20,297)	(4,101)	(4,416)	(28,814)
Less: Unreflected Gas Cost Balance Currently in Rates (8/31/88)	1,542,555	356,819	384,202	2,283,576
Net Revenue Change, Dkt. No. 89.12.53	953,947	221,473	238,471	1,413,891
Add: 90% of IMR Revenue Differential	1,014,839	237,880	256,135	1,508,854
Less: Differential Currently in Rates	1,704,929	397,833	428,363	2,531,125
Total Increase, Both Dockets	263,857	61,520	66,243	391,620
Sales Volumes Est.	20,282,118	4,101,373	4,416,118	
Unit Increase/MCF	$.013	$.015	$.015	
% Increase	.39%	.40%	.46%	

With respect to the above schedule, the Commission notes the following:

A. Once again, an overcollection exists in the deferred account. However, when offset by the IMR balance, a rate deficiency has resulted. Therefore, it seems that the end result in this instance is balanced. However, the PSC intends to monitor this situation, particularly the IMR effect after the issuance of the gas rate design order.

B. MPC's "A&S and Energy Oils" and "Severance Tax and Working Interest" prospective adjustments to compensate for a changing market are proper for interim purposes.

C. Inclusion of 90% of the IMR revenue differential is consistent with the previous interim orders. The IMR revenue differential amount of $1,508,854 includes a remaining balance from last year of ($311,175), rounding adjustment of ($4,792), a balance for the 12 months ended 8/31/89 of $4,182,875 and a net Natural Gas Incentive (NGI) revenue offset of ($2,358,054). When grossed up to the 100% level, the 8/31/89 balance is $4,647,638. This amount results from below otherwise applicable tariff sales to Stauffer (344,936 Mcf @ 14.9), Stone Container (1,669,895 Mcf @ 14.9), Pfizer (226,633 Mcf @ 14.9), MSU (364,617 Mcf @ 14.9) and Columbia Falls Aluminum (208,072 Mcf @ 14.9). The deviation ranges from about $.86/Mcf to about $2.061/Mcf. This deviation is indicative, but not determinative of MPC's intent to maximize revenues from these sales, thereby insuring that other ratepayers won't be required to unduly subsidize these customers.

D. The revenue requirement effect of the Natural Gas Incentive (NGI) rate is a reduction of $2,274,332, which consists of actual NGI revenues of $3,450,994, less actual NGI expenses of $1,092,891, less an NGI gas cost adjustment of $83,721. The difference between $3,450,994 and $1,092,891 is credited against 90% of the IMR balance, which appears to comport with MPC Order 5410a/b in Docket 87.8.38. The $83,721 is the difference between estimated NGI gas costs of $633,327 and actual NGI gas costs.

MPC seeks current gas cost recovery according to the following mix:

The Montana Power Company
Natural Gas Supply/Market Costs
September 1, 1989 - August 31, 1990 Tracking Period

MARKET	MCF @ 14.9	Gas Cost (U.S. $)	Average $/MCF
Residential	9,671,109		
Commercial	6,974,930		
Firm Industrial	981,708		
Interruptible Industrial	4,101,373		
Montana Utilities	4,416,118		
Montana Market	26,145,238		
Canadian Utilities	41,206		
NGI Sales	777,124		
Transmission Use	943,725		
Distribution Use	457,099		
	28,364,392		
SUPPLY/COST			
Carway	900,000	1,755,000	1.95
Reagan			
Purchase	160,000	361,987	2.262
Aden			
Purchase	3,869,568	4,832,312	1.249
Royalty	3,901,935	1,392,013	0.357
Fee	256,277		
Co-Use	(602,081)		
Net Aden	7,425,697	6,224,325	0.838
MONTANA			
Purchase	13,201,759	25,179,305	1.907
Royalty	7,291,741	1,449,182	0.357
Co-Use	(614,805)		
Net Montana	19,878,695	26,678,487	1.342
STORAGE NET WITHDRAWAL	0	0	0
Subtotal Gas Supply28,364,392	35,019,799	1.235	
Less			
Canadian Utilities	(41,206)	(67,734)	1.644
NGI Sales	(777,124)	(325,920)	0.419
NET GAS COSTS TO MT MKT.	27,546,062	34,626,145	1.324

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The Commission notes that the Canadian gas mix is becoming ever more dependent on purchase gas, as opposed to royalty gas. The cost of the purchase gas approximates the cost of the .77 Bcf of "spot" gas that was included in MPC overall mix during the tracking period which ended 8/31/86. The PSC found that purchase to be in the public interest. Also, in Interim Order No. 5301, the PSC found: "The Commission is also aware, however, that the price of Aden purchased gas has declined to about $1.13/Mcf @ 14.9. Additional purchases of this relatively cheap source would allow the preservation of royalty gas, both Montana and Canadian, for future ratepayers. The Commission expects, however, that a complete explanation will be forthcoming before any final order in Docket No. 87.10.58 is issued." Order No. 5301, Paragraph 7C.

One of the PSC's concerns with regard to the finding quoted is that, should some type of transportation arrangement be allowed in Docket No. 90.1.1, the benefits of the royalty gas referred to may not be available. Given this premise, ratepayers would have incurred higher gas rates than would have been necessary. Accordingly, before any transportation arrangement is considered, the issue of accrued ratepayer benefits must be addressed.

Several gas cost disagreements were settled during the tracking period, and MPC has included the effects of the settlements as gas costs in its filing. One was a disagreement with the

Blackfeet Indian Tribe, which was settled for $427,500, and the other was a settlement with the Department of State Lands for $160,946.

The settlements are, very likely, similar to other gas cost settlements previously approved by the Commission. The monetary effects of some of these are reflected in this filing. On the other hand, the Commission has recently addressed an issue very similar, if not identical, to this one in MPC Order 5360d, findings of fact 477 and 478. There, the Commission declined to reflect the effects of refunds from BPA and a medical insurance provider. Although the refunds totaled about $4,000,000, MPC argued that they were insignificant. It also asserted that a policy needs to be established so that similar rate treatment is afforded refunds <u>and payments</u> in the future. The Commission is committed to development of such policy in MPC's next general rate filing.

The Commission will allow the settlements described above on an interim basis. However, if the Commission rules in MPC's general rate case that extraordinary refunds and payments are not properly includable in the cost of service, MPC may be in the position of refunding the rate impacts of the above mentioned settlements.

During the tracking period, MPC converted most of its billing functions to a Customer Information System (CIS). Although no customers received more than 12 bills during the tracking period, the CIS changed the way in which revenues were booked. Formerly, a revenue month started on the 21st of one month and ended on the 20th of the next month. With the CIS, a revenue month is the same as a regular calendar month. The conversion to the CIS made it necessary to book 13 months revenue (during the tracking period) for those customers who are billed between August 21 and August 31. An adjustment of $468,632, which increases the revenue requirement, was made in MPC's filing. It asserts that future filings won't include such an adjustment, since only 12 months of revenue will be booked in any given year.

The Commission finds that MPC's adjustment approximates proper matching of revenues and expenses for the purposes of this proceeding, which pertains to actual revenues and expenses, rather than the proxy revenues and expenses reflected in general filings. Therefore, the Commission approves the adjustment for interim purposes.

A new source of gas supply has been purchased by MPC to assure customers of greater reliability during winter periods. The source is referred to as Carway (900,000 Mcf), and it costs $1.95/Mcf at 14.9 p.s.i.a. The Commission was informally made aware of MPC's problem of serving peak load during the severe cold conditions of February, 1989. Also, K.M. Schellin states in her testimony: "While gas supplies were adequate in February, there was no deliverability to spare and virtually no redundancy to backstop a problem should one have developed at any of our major supply sources." (p. KMS-11.) If system requirements of 230.3 MMcf/day again arose, the Carway gas would provide an extra deliverability cushion of 10 MMcf/day, or 4.3%.

The above mentioned deliverability cushion seems reasonable at this time for interim purposes. Therefore, the Commission approves it.

The interim purposes, the Commission finds the unit increases per Mcf as shown in Finding No. 2 to be proper.

CONCLUSIONS OF LAW

1. Montana Power Company is a corporation providing gas services within the State of Montana, and, as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Commission properly exercises jurisdiction over Montana Power Company's natural gas utility operations under Title 69, Chapter 3, MCA.

3. The Commission may approve increases or decreases in rates on an interim basis, pending a hearing on the merits (69-3-304).

ORDER

1. The Commission orders Montana Power Company to file rate schedules reflective of the Findings of Fact above to be effective for services rendered on and after February 1, 1990.

2. A notice of opportunity for public hearing will be issued in the future to allow parties the option of pursuing items of interest to them.

3. Any refunds shall include interest calculated at Montana Power Company's return on equity.

DONE AND DATED at Helena, Montana this 25th day of January, 1990, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

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WALLACE W. "WALLY" MERCER, Commissioner

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DANNY OBERG, Commissioner

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JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Peck
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.